U.S. Economic Comment

- Employment: easing from 2018 pace, but still firm
- Unemployment: up in June, but favorable outlook
- Average hourly earnings: growth rate stalls
- Policy implications: low probability of easing in July; cuts still likely thereafter

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The U.S. Labor Market

Job growth of 224,000 in June suggested that the modest advance of 72,000 in the prior month (revised from 75,000) was an aberration. The latest increase left the average monthly gain so far this year at 172,000, slower than the pace of 223,000 in 2018, but still solid for this stage of the business cycle and firm enough to reduce unemployment over time (chart, below; table, p. 3).

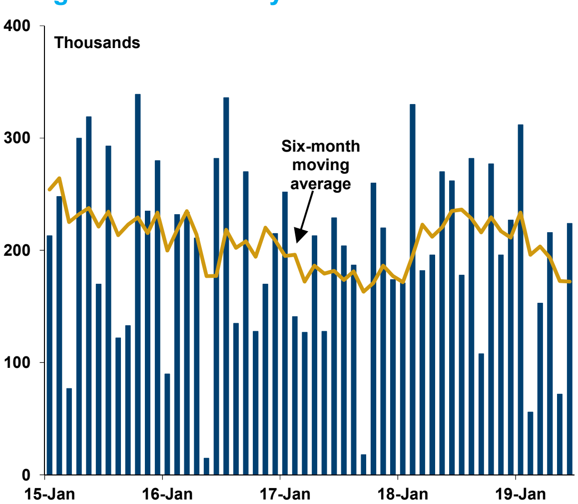
Job growth in June was broadly based, but we were especially impressed with the performance in the manufacturing sector, where payrolls increased 17,000, up from a net gain of only 3,000 in the prior three months combined. In addition, the length of the average workweek in the manufacturing sector increased 0.1 hour in June. The combination of larger payrolls and longer workweeks raises the prospect of a pickup in output in June, a shift from an average decline of 0.3 percent in the first five months of the year (measured by the manufacturing component of industrial production). Generally weak results for all reports related to the manufacturing sector in recent months represent the most telling evidence of a slowdown in the economy. The employment data, however, dampen concerns about fading growth.

The published unemployment rate rose 0.1 percentage point to 3.7 percent, but the shift represented more of a rounding issue than a noticeable increase in joblessness (3.666 percent, versus 3.620 percent in May). Moreover, the increase in unemployment had a favorable tilt, as it reflected an increase in the size of the labor force that exceeded the increase in employment (335,000 new entrants into the labor force versus a gain of 247,000 in employment as measured by the household survey).

Although the unemployment rate rose in June, prospects for reductions in coming months seem favorable. Under the assumption that job growth is reasonably well maintained in the months ahead, the change in the unemployment rate will depend on the movement in the size of the labor force. Unfortunately, the size of the labor is an especially volatile series, with monthly changes in the past year ranging from -490,000 to 639,000. Thus, short-term observations provide little insight into the underlying trend and the average increase in employment needed to hold the unemployment rate steady.

A long-term view, though, is helpful. The labor force participation rate -- the share of the working-age population working or looking for work -- has been steady for the past three to four years (chart, next page), and the average monthly increase in the size of the labor force over this span has totaled approximately 120,000, which serves as a good measure of the underlying trend. As long as monthly job growth exceeds this amount, shifts in employment and the size of the labor force will trace a downward trend in joblessness.

Change in Nonfarm Payrolls

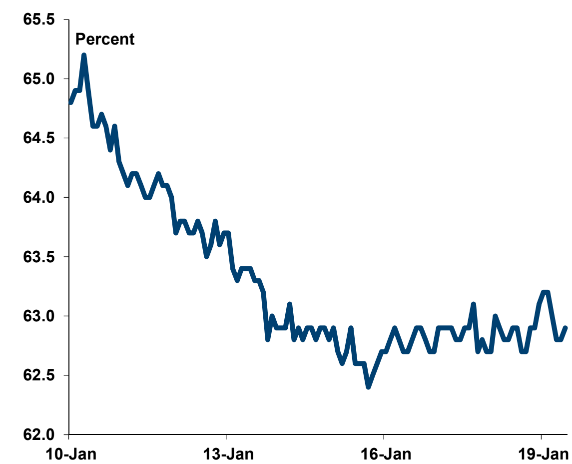


Source: Bureau of Labor Statistics via Haver Analytics

Conceivably, the increase in employment needed to hold the unemployment rate steady is less than 120,000. The flat trend in labor force participation in the past three to four years has reflected the offsetting influences of retiring baby boomers and returning prime-age workers who had dropped out of the labor force during the recession and its aftermath. A pickup in retirements or a slowdown in returning workers would reduce the average increase in employment needed to hold unemployment steady.

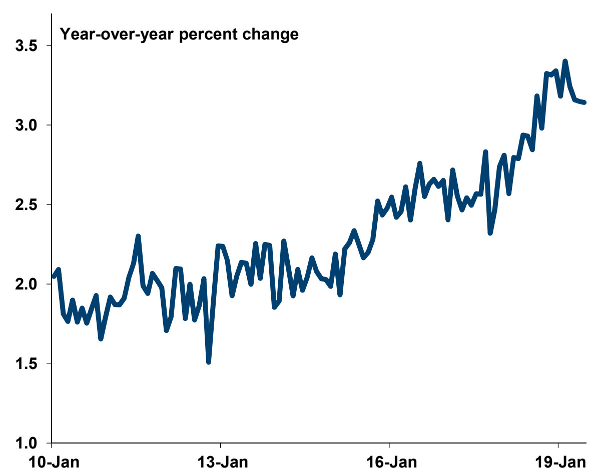
The employment report was generally favorable, although we viewed the increase of 0.2 percent in average hourly earnings as disappointing. The gain was shy of the expected increase of 0.3 percent, and it left year-over-year growth in the low portion of the recent range. Wage growth began to pickup in the later part of 2017 and accelerated during most of 2018. However, year-over-year growth has slowed in recent months, easing from 3.4 percent in February to 3.1 percent in the latest month (chart, right).

Labor Force Participation Rate*



** The labor force as a share of the civilian noninstitutional population*
Source: Bureau of Labor Statistics via Haver Analytics

Average Hourly Earnings



Source: Bureau of Labor Statistics via Haver Analytics

Monetary Policy

The subdued increase in average hourly earnings is likely to reinforce the views among Fed officials of limited inflation pressures (the latest Summary of Economic Projections showed reductions in expected inflation this year and next, with median views below 2.0 percent in both years). Thus, easier policy is likely to be considered at the July 31 meeting of the Federal Open Market Committee. However, the solid advance in employment reduces the likelihood of officials moving at that time. Several key economic reports will be released before that meeting -- CPI, Q2 GDP, and several statistics providing insight into business and consumer demand -- and the new data could alter policy prospects. At this point, however, we look for steady policy in July. We would to our current view (revised after the friendly results at the June FOMC meeting) of two rate cuts of 25 basis points later this year.

Employment Report

	Nonfarm Payrolls* (Chg., Thousands)		Private-Sector Payrolls (Chg., Thousands)	Unemp. Rate (Percent)	Broad Unemp. Rate (Percent)	Household Emp. (Chg., Thousands)	Labor Force (Chg., Thousands)	Emp.-Population Ratio (Pct.)	Median Duration of Unemp. (Weeks)	Part-Time Econ. Reasons (Thou.)	Avg. Hourly Earnings % Chg.	Avg. Workweek (Hours)
Annual Average												
2017	179		172	4.4	8.5	149	71	60.1	10.1	5,254	0.2	34.4
2018	223		215	3.9	7.7	240	217	60.4	9.3	4,780	0.3	34.5
2019	172		161	3.8	7.4	10	-43	60.6	9.3	4,552	0.2	34.4
Qtrly. Average												
18-Q4	233		236	3.8	7.6	292	395	60.6	9.2	4,689	0.3	34.5
19-Q1	174		165	3.9	7.6	-66	-93	60.7	9.3	4,652	0.2	34.5
19-Q2	171		156	3.6	7.2	86	7	60.6	9.4	4,452	0.2	34.4
2019 Monthly												
Jan.	312		297	4.0	8.1	-251	-11	60.7	8.9	5,147	0.1	34.5
Feb.	56		46	3.8	7.3	255	-45	60.7	9.3	4,310	0.4	34.4
Mar.	153		153	3.8	7.3	-201	-224	60.6	9.6	4,499	0.2	34.5
Apr.	216	(224)	195	3.6	7.3	-103	-490	60.6	9.4	4,654	0.1	34.4
May	72	(75)	83	3.6	7.1	113	176	60.6	9.1	4,355	0.3	34.4
June	224		191	3.7	7.2	247	335	60.6	9.6	4,347	0.2	34.4

** Preliminary readings on nonfarm payrolls are shown in parenthesis.*
Source: Bureau of Labor Statistics via Haver Analytics

Review

Week of July 1, 2019	Actual	Consensus	Comments
ISM Manufacturing Index (June)	**51.7% (-0.4 Pct. Pt.)**	**51.0% (-1.1 Pct. Pts.)**	The ISM manufacturing index for June was soft in an absolute sense, but it was better than contractionary signals evident in various regional measures. The orders component was disappointing, as it fell 2.7 percentage points to 50.0%, well shy of readings above 60% during much of 2017 and 2018. Although orders flows were soft, production held up well in June, as this component increased 2.8 percentage points to 54.1%. The latest reading paled in comparison with the average of 60.7% in 2018, but it was respectable relative to long-run historical standards. The employment index also performed reasonably well, increasing 0.8 percentage point to 54.5%.
Construction Spending (May)	**-0.8%**	**0.0%**	All three components contributed to the drop in the headline measure of construction. Private residential activity fell 0.6%, continuing the downward trend that began in the spring of last year. Private nonresidential construction fell 0.9%. This area has fluctuated within a narrow range since early 2018, showing little net change. Government-sponsored activity fell 0.9% in May. The drop represented only a small offset to pronounced gains in the prior four months, leaving activity at a still-elevated level. The figures in total suggest a small contribution to economic growth in Q2 from construction, with activity at the government level offsetting softness in residential and private nonresidential activity.
Trade Balance (May)	**-$55.5 Billion ($4.3 Billion Wider Deficit)**	**-$54.0 Billion ($3.2 Billion Wider Deficit)**	Both exports and imports rose noticeably in May (2.0% and 3.3%, respectively), but the gains merely offset most of the net ground lost in the prior several months. Both measures remained below peaks registered last year. The larger change in imports led to a widening in the trade deficit. The average shortfall so far in the second quarter is larger than that for Q1, suggesting a drag from net exports on GDP growth. If results for June were to match the average for April and May, net exports would subtract approximately one-half percentage point from Q2 GDP growth.
Factory Orders (May)	**-0.7%**	**-0.6%**	Most of the decline in factory orders occurred in the durable component (off 1.3%), with the drop concentrated in the aircraft sector, not surprising given the problems at Boeing. Excluding transportation, durable orders rose 0.4%. Orders for nondurable goods fell 0.2%, but a decline of 2.4% in orders for petroleum and coal products dominated the retreat, and this drop was at least partially the result of lower prices. Nondurable orders excluding petroleum and coal rose 0.4% from a slightly upwardly revised reading in April. Nondurable orders excluding petroleum and coal had been moving sideways since last summer, but the new figures pulled bookings out of the recent tight range.

Review Continued

Week of July 1, 2019	Actual	Consensus	Comments
ISM Nonmanufacturing Index (June)	**55.1% (-1.8 Pct. Pts.)**	**56.0% (-0.9 Pct. Pt.)**	The ISM nonmanufacturing index has declined in five of the past seven months, which has moved the measure to the low end of its recent range. The latest reading trailed by a sizeable margin the average of 58.9% in 2018 and it moved to its lowest level since October 2016 (54.4%; July 2017 matched the current reading). The supplier delivery component rose in June, but it merely moved from a sub-50 percent level to 51.5%. The other three major components -- new orders, employment, and business activity -- all posted declines of approximately three percentage points. These measures remained comfortably above the critical value of 50%, but they all were noticeably below observations in late 2018 or early 2019.
Payroll Employment (June)	**224,000**	**160,000**	The jump in payroll employment in June suggested that the soft reading in the prior month (72,000, revised from 75,000) was an aberration. The average for the first six months of the year still trailed that for 2018 (172,000 versus 223,000), but it was still a solid performance and strong enough to reduce unemployment over time. The jobless rate rose in June despite strong job growth, but the uptick was the result of a large increase in the size of the labor force (335,000 versus an employment gain of 247,000 as measured by the household survey). Average hourly earnings rose 0.2%, which left year-over-year growth at 3.1%. Average hourly earnings accelerated much of last year, but growth has steadied so far this year.

Source: Institute for Supply Management (ISM Manufacturing Index, ISM Nonmanufacturing Index); U.S. Census Bureau (Construction Spending, Factory Orders); Bureau of Economic Analysis (Trade Balance); Bureau of Labor Statistics (Payroll Employment); Consensus forecasts are from Bloomberg

Preview

Week of July 8, 2019	Projected	Comments
CPI (June) (Thursday)	**0.0% Total, 0.2% Core**	Downward pressure on energy prices is likely to restrain the headline CPI, while the core component is likely to end a string of four consecutive increases of 0.1%. Prices of apparel and used motor vehicles have moved to the bottoms of their ranges from the past few years and seem to have upside potential. Prices of recreation services are likely to reverse a portion of their sharp decline in May.
Federal Budget (June) (Thursday)	**$25 billion Surplus**	Available data suggest solid growth in revenues in June (up more than 5% from the same month last year). Outlays, in contrast, are likely to be restrained, but the expected result partly reflects a calendar configuration that shifted some outlays from June into May. If the forecast is realized, the budget deficit for the first nine months of the fiscal year would total $714 billion, up from $607 billion in the same period in FY2018.
PPI (June) (Friday)	**-0.1% Total, 0.1% Core***	Lower prices of gasoline and fuel oil probably pushed the energy component and headline index lower in June. Elsewhere, prices of food and core goods should remain on their modest trajectories (little net change since January), and prices of services should settle after increases of 0.3% in two of the prior three months. The expected changes would leave year-over-year growth of 1.4% in the headline index and 2.2% in the core component.

** The core PPI excludes food, energy, and trade services.*
Source: Forecasts provided by Daiwa Capital Markets America

Economic Indicators

July 2019

Monday	Tuesday	Wednesday	Thursday	Friday
1	2	3	4	5
ISM INDEX Index Prices Apr 52.8 50.0 May 52.1 53.2 June 51.7 47.9 **CONSTRUCTION SPEND.** Mar 0.1% Apr 0.4% May -0.8%	**VEHICLE SALES** Apr 16.4 million May 17.4 million June 17.3 million	**ADP EMPLOYMENT REPORT** Private Payrolls Apr 255,000 May 41,000 June 102,000 **INITIAL CLAIMS** June 15 217,000 June 22 229,000 June 29 221,000 **TRADE BALANCE** Mar -$51.9 billion Apr -$51.2 billion May -$55.5 billion **FACTORY ORDERS** Mar 1.3% Apr -1.2% May -0.7% **ISM NON-MFG INDEX** Index Prices Apr 55.5 55.7 May 56.9 55.4 June 55.1 58.9	***INDEPENDENCE DAY***	**EMPLOYMENT REPORT** Payrolls Un. Rate Apr 216,000 3.6% May 72,000 3.6% June 224,000 3.7%
8	9	10	11	12
CONSUMER CREDIT (3:00) Mar $11.0 billion Apr $17.5 billion May --	**NFIB SMALL BUSINESS OPTIMISM INDEX (6:00)** Apr 103.5 May 105.0 June -- **JOLTS DATA (10:00)** Openings (000) Quit Rate Mar 7,474 2.3% Apr 7,449 2.3% May -- --	**WHOLESALE TRADE (10:00)** Inventories Sales Mar 0.0% 1.8% Apr 0.9% -0.4% **May 0.4% 0.3%** **POWELL SEMI-ANNUAL MONETARY POLICY TESTIMONY (HOUSE) (10:00)** **FOMC MINUTES (2:00)**	**INITIAL CLAIMS (8:30)** **CPI (8:30)** Total Core Apr 0.3% 0.1% May 0.1% 0.1% **June 0.0% 0.2%** **FEDERAL BUDGET (2:00)** 2019 2018 Apr $160.3B $214.3B May -$207.8B -$146.8B **June $25.0B** -$74.9B **POWELL SEMI-ANNUAL MONETARY POLICY TESTIMONY (SENATE) (10:00)**	**PPI (8:30)** Final Demand Core* Apr 0.2% 0.4% May 0.1% 0.4% **June -0.1% 0.1%**
15	16	17	18	19
EMPIRE MFG INDEX	**RETAIL SALES** **IMPORT/EXPORT PRICES** **IP & CAP-U** **NAHB HOUSING INDEX** **BUSINESS INVENTORIES** **TIC DATA**	**HOUSING STARTS** **BEIGE BOOK**	**INITIAL CLAIMS** **PHILLY FED INDEX** **LEADING INDICATORS**	**CONSUMER SENTIMENT**
22	23	24	25	26
CHICAGO FED NAT'L ACTIVITY INDEX	**FHFA HOME PRICE INDEX** **EXISTING HOME SALES**	**NEW HOME SALES**	**INITIAL CLAIMS** **DURABLE GOODS ORDERS** **U.S. INTERNATIONAL TRADE IN GOODS** **ADVANCE INVENTORIES**	**GDP**

*Forecasts in Bold * The core PPI excludes the food, energy, and trade services components.*

Treasury Financing

July 2019

Monday	Tuesday	Wednesday	Thursday	Friday
1	2	3	4	5
AUCTION RESULTS: Rate / Cover 13-week bills 2.145% 2.66 26-week bills 2.040% 2.91 **SETTLE:** $40 billion 2-year notes $41 billion 5-year notes $32 billion 7-year notes	**ANNOUNCE:** $40 billion 4-week bills for auction on July 3 $35 billion 8-week bills for auction on July 3 **SETTLE:** $40 billion 4-week bills $35 billion 8-week bills	**AUCTION RESULTS:** Rate / Cover 4-week bills 2.210% 2.47 8-week bills 2.155% 2.76 **ANNOUNCE:** $72 billion 13-,26-week bills for auction on July 8 $38 billion 3-year notes for auction on July 9 $24 billion 10-year notes for auction on July 10 $16 billion 30-year bonds for auction on July 11	***INDEPENDENCE DAY***	**SETTLE:** $72 billion 13-,26-week bills
8	9	10	11	12
AUCTION: $72 billion 13-,26-week bills	**AUCTION:** $38 billion 3-year notes **ANNOUNCE:** $40 billion* 4-week bills for auction on July 11 $35 billion* 8-week bills for auction on July 11 **SETTLE:** $40 billion 4-week bills $35 billion 8-week bills	**AUCTION:** $24 billion 10-year notes	**AUCTION:** $40 billion* 4-week bills $35 billion* 8-week bills $16 billion 30-year bonds **ANNOUNCE:** $72 billion* 13-,26-week bills for auction on July 15 $26 billion* 52-week bills for auction on July 16 $14 billion* 10-year TIPS for auction on July 18 **SETTLE:** $72 billion 13-,26-week bills	
15	16	17	18	19
AUCTION: $72 billion* 13-,26-week bills **SETTLE:** $38 billion 3-year notes $24 billion 10-year notes $16 billion 30-year bonds	**AUCTION:** $26 billion* 52-week bills **ANNOUNCE:** $40 billion* 4-week bills for auction on July 18 $35 billion* 8-week bills for auction on July 18 **SETTLE:** $40 billion* 4-week bills $35 billion* 8-week bills		**AUCTION:** $40 billion* 4-week bills $35 billion* 8-week bills $14 billion* 10-year TIPS **ANNOUNCE:** $72 billion* 13-,26-week bills for auction on July 22 $20 billion* 2-year FRNs for auction on July 24 $40 billion* 2-year notes for auction on July 23 $41 billion* 5-year notes for auction on July 24 $32 billion* 7-year notes for auction on July 25 **SETTLE:** $72 billion* 13-,26-week bills $26 billion* 52-week bills	
22	23	24	25	26
AUCTION: $72 billion* 13-,26-week bills	**AUCTION:** $40 billion* 2-year notes **ANNOUNCE:** $40 billion* 4-week bills for auction on July 25 $35 billion* 8-week bills for auction on July 25 **SETTLE:** $40 billion* 4-week bills $35 billion* 8-week bills	**AUCTION:** $20 billion* 2-year FRNs $41 billion* 5-year notes	**AUCTION:** $40 billion* 4-week bills $35 billion* 8-week bills $32 billion* 7-year notes **ANNOUNCE:** $72 billion* 13-,26-week bills for auction on July 29 **SETTLE:** $72 billion* 13-,26-week bills	

**Estimate*